

HANCOCK PUBLIC SCHOOLS
HANCOCK, MICHIGAN

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

June 30, 2008





HANCOCK PUBLIC SCHOOLS

JUNE 30, 2008

ADMINISTRATION

Superintendent	John D. Vaara
High School Principal	John Sanregret
Middle School Principal	Monica Healy
Elementary Principal	Bruce Matson

BOARD OF EDUCATION

President	Susan Amato-Henderson
Vice President	Mark Peters
Treasurer	Dale Kero
Secretary	Lisa Almquist
Trustee	Ron Blau
Trustee	Tim Seaton
Trustee	Daryll Williams

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	5
MANAGEMENT'S DISCUSSION AND ANALYSIS	7
BASIC FINANCIAL STATEMENTS:	
<u>District-wide Financial Statements:</u>	
Statement of Net Assets	14
Statement of Activities	15
<u>Fund Financial Statements:</u>	
Governmental Funds:	
Balance Sheet	16
Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Fiduciary Funds - Statement of Fiduciary Net Assets	18
NOTES TO FINANCIAL STATEMENTS	19
REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION	
Budgetary Comparison Schedule - General Fund	35
OTHER SUPPLEMENTAL FINANCIAL INFORMATION	
<u>Major Governmental Funds</u>	
General Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances	37
Debt Service Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances	40
<u>Non-Major Governmental Funds</u>	
Combining Balance Sheets	41
Combining Statements of Revenues, Expenditures, and Changes in Fund Balances	42
School Food Service Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances ..	43
Athletic Fund - Schedules of Revenues, Expenditures, and Changes in Fund Balances	44

TABLE OF CONTENTS

(Continued)

	<u>Page</u>
OTHER SUPPLEMENTAL FINANCIAL INFORMATION (Continued)	
<u>Fiduciary Funds</u>	
Trust and Agency Fund - Statement of Changes in Assets and Liabilities	45
Scholarship Fund - Statement of Changes in Assets and Liabilities	46
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	47



Bruce A. Rukkila, CPA, PC

310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.brucerukkila.com



INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Hancock Public Schools
Hancock, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools as of and for the year then ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hancock Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Michigan School Auditing Manual*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 6, 2008 on our consideration of Hancock Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 7 through 13 and page 35 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express any opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Hancock Public Schools' basic financial statements. The additional information on pages 37 to 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subject to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

November 6, 2008

This section of Hancock Public Schools annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follows this section.

Financial Highlights

School Bond Loan Fund – For a fourth year the District did not have to borrow from the School Bond Loan Fund in order to make the interest and principal payments on bond debt. The District also made a payment on the interest due to the School Bond Loan Fund in the amount of \$178,023. This fiscal year the District reduced its long-term debt by \$778,877 for a total debt at fiscal year end of \$12,026,491.

Deficit Fund Balance – The District's general fund ended the year with a deficit of \$871,767. Decrease in enrollment is the main reasons for the deficit. We have attempted to negotiate a less expensive drug/insurance plan with our unions, but have not been successful. We have also reduced staff and reduced expenditures in a variety of areas. The District will continue to monitor its financial situation with budget amendments and look at ways to increase and maintain enrollment.

Overview of the Financial Statements

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

Statement of Net Assets and the Statement of Activities

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net assets and the changes in the net assets during the year are reported by these two statements. Increases or decreases in the District's net assets is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Assets presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Overview of the Financial Statements - Continued

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Fund, School Food Service Fund, and Athletic Fund.

Major Funds: Under GASB Statement 34, the audit focus has shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General Fund and Debt Service Fund meet this requirement.

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the general fund.
- Other supplementary information provides detailed information about the General Fund, Debt Service Fund, School Food Service Fund and Athletic Fund.

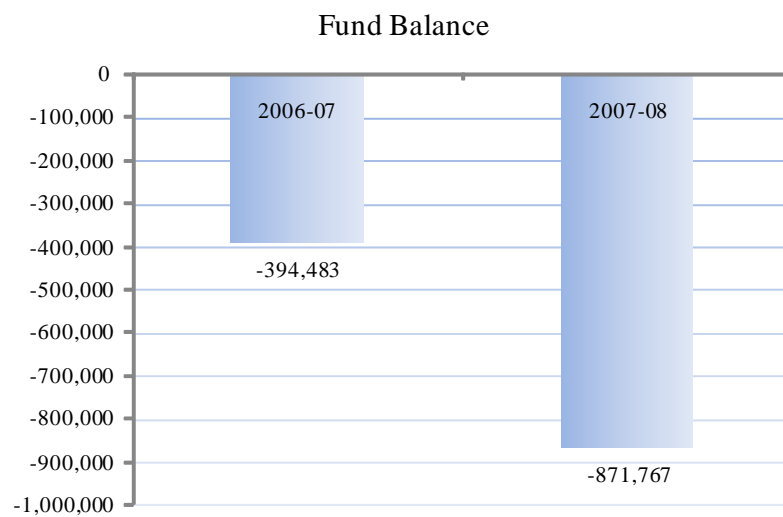
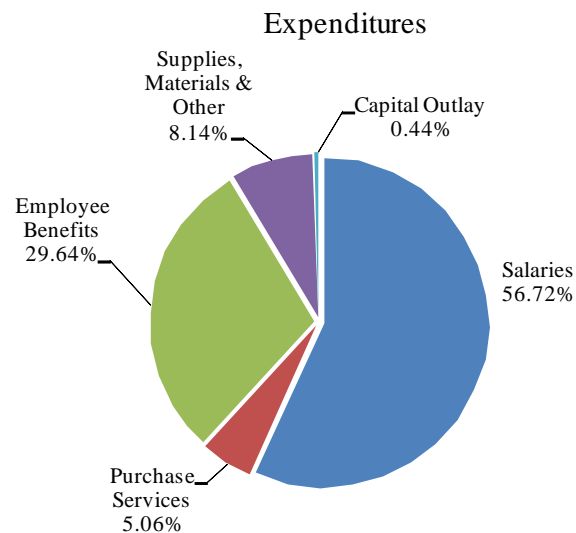
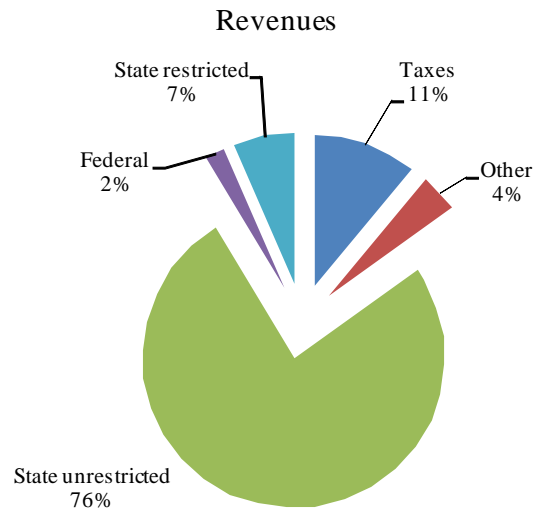
Summary of Net Assets

	2008	2007
Assets		
Current and other assets	\$ 1,326,619	\$ 1,334,385
Restricted cash and investments	210,790	69,756
Capital assets - Net of accumulated depreciation	10,366,292	10,774,831
Total Assets	<u>\$ 11,903,701</u>	<u>\$ 12,178,972</u>
Liabilities		
Current liabilities	\$ 4,186,059	\$ 3,695,028
Long-term liabilities	11,457,528	12,204,880
Total Liabilities	<u>15,643,587</u>	<u>15,899,908</u>
Net Assets		
Invested in property and equipment - net of related debt	(2,804,866)	(3,102,690)
Restricted debt service	182,242	89,556
Restricted QZAB loan	115,926	59,660
Unrestricted	(1,233,188)	(767,462)
Total net assets	<u>(3,739,886)</u>	<u>(3,720,936)</u>
Total Liabilities and Net Assets	<u>\$ 11,903,701</u>	<u>\$ 12,178,972</u>

Results of Operations in Governmental Activities

	2008	2007
Program Revenue:		
Charges for services	\$ 179,992	\$ 182,239
Grants and contributions	769,280	959,347
General Revenue:		
Taxes	2,050,291	1,921,537
State foundation allowance	5,113,112	5,368,790
Other	227,222	363,031
Total Revenue	<u>8,339,897</u>	<u>8,794,944</u>
Functions/Program Expenses		
Instruction	4,957,808	5,254,187
Support services	2,278,066	2,414,106
Community services	55,374	0
School food services	348,354	355,987
Athletics	163,127	157,674
Interest on long-term debt	550,990	587,503
Other debt	5,128	5,646
Total Expenses	<u>8,358,847</u>	<u>8,775,103</u>
Change in Net Assets	(18,950)	19,841
Net Assets - Beginning	<u>(3,720,936)</u>	<u>(3,740,777)</u>
Net Assets - Ending	<u>\$ (3,739,886)</u>	<u>\$ (3,720,936)</u>

The following charts highlight the District's General Fund activities:



Significant Transactions and Changes in Individual Funds

The overall financial position of the individual Governmental funds of the District did not change significantly from the previous year. A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
General Fund:			
Revenues/Transfers	\$ 6,739,563	\$ 7,331,049	\$ (591,486)
Expenditures/Transfers	\$ 7,216,847	\$ 7,882,038	\$ (665,191)
Fund Balance	\$ (871,767)	\$ (394,483)	\$ (477,284)
Debt Service Fund:			
Revenues/Transfers	\$ 1,352,931	\$ 1,272,443	\$ 80,488
Expenditures/Transfers	\$ 1,260,245	\$ 1,334,105	\$ (73,860)
Fund Balance	\$ 182,242	\$ 89,556	\$ 92,686
School Food Service Fund:			
Revenues	\$ 345,854	\$ 366,114	\$ (20,260)
Expenditures	\$ 345,854	\$ 353,487	\$ (7,633)
Fund Balance	\$ 0	\$ 0	\$ 0
Athletic Fund:			
Revenues/Transfers	\$ 156,170	\$ 145,488	\$ 10,682
Expenditures/Transfers	\$ 156,170	\$ 150,717	\$ 5,453
Fund Balance	\$ 0	\$ 0	\$ 0

General Fund - The single major decrease in revenue from prior year is unrestricted state aid which decreased by \$256,929. Incoming transfers from other schools decreased by \$203,893 due to the dissolution of the special education pool. The Title I and Comprehensive School Reform Grants decreased significantly from prior year resulting in total federal revenue being reduced by \$158,619. Tax revenue increased by \$48,851 from prior year.

Debt Service Fund - The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bond issue-related debt of the District. Tax revenue increased by approximately \$73,000 from prior year and the District did not have to borrow from the School Bond Loan Fund in order to make the interest and principal payments. Expenditures decreased from prior year because the interest and principal payments were reduced by \$71,791.

School Food Service Fund - Charges for services decreased by approximately \$25,000 from prior year. In addition, there was a reduction in salary and employee benefits from prior year.

Athletic Fund - The Athletic Fund is supported primarily by operating transfers from the General Fund. This fund also collects revenues in the form of gate receipts which increased from prior year.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year on the 1st of July. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2008, the original budget was adopted on June 25, 2007. Since the original budget is adopted two months before school is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. Therefore, the District amended its budget twice during the fiscal year.

General Fund Budgetary Highlights - Continued

	Original Budget	Final Budget	Actual	Variance with final budget	% Variance
Revenues	\$ 7,001,942	\$ 6,714,036	\$ 6,642,560	\$ (71,476)	-1.1%
Expenditures					
Instruction	\$ 4,566,079	\$ 4,632,346	\$ 4,594,810	\$ 37,536	0.8%
Supporting services	2,273,686	2,280,503	2,293,104	(12,601)	-0.6%
Total expenditures	\$ 6,839,765	\$ 6,912,849	\$ 6,887,914	\$ 24,935	0.4%
Other financing sources (uses)	\$ (151,384)	\$ (204,892)	\$ (231,930)	\$ (27,038)	12%

Changes to the original budget for revenues was due mainly to the reduction of grants. These would include Comprehensive School Reform, At-Risk, Middle School Math, Title I, and Title V grants. SmartZone tax capture was not recognized when budgeting for the tax revenue therefore, over stating both the original and final by \$59,319.

This year the District changed to contract labor for substitute teachers, reducing the retirement expenditures in instruction by over \$30,000. In supporting services, operations and maintenance had additional expenditures at year end.

An unexpected increase in students participating in the Alternative Education for students increased the transfer to Copper Country Intermediate School District.

Capital Assets and Debt Administration

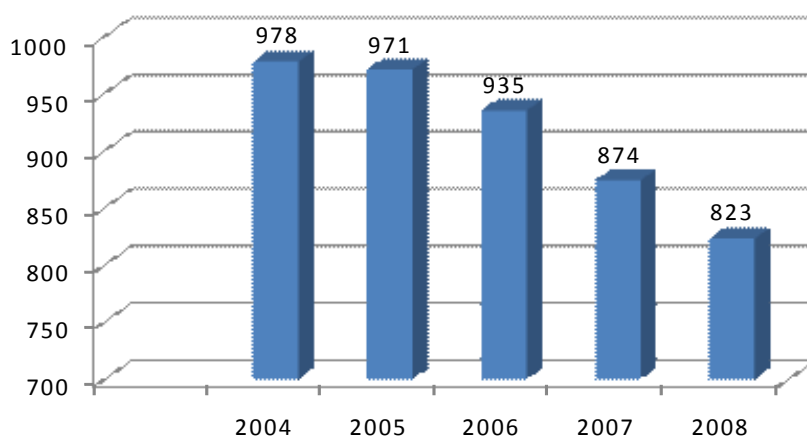
Capital Assets: The District's net investment in capital assets decreased by \$408,539 during the fiscal year. The district purchased a copier and installed a computer lab in the Middle School. The total cost of new capital assets was \$27,822. Additional information on the District's capital assets can be found on a page 25 of this report.

Long-term Debt: During the current fiscal year, the District reduced it's debt by \$783,252 for a total debt at fiscal year end in the amount of \$12,026,491. This total amount is backed by the full faith and credit of the District.

Additional information on the District's long-term debt can be found on a page 27 of this report.

Known Facts, Decisions, or Conditions Having Significant Effect on Future Operations

The graph depicts 5.83% decline in the number of students enrolled from the previous year, using the State Aid Membership Count.



Known Facts, Decisions, or Conditions Having Significant Effect on Future Operations - Continued

Our elected officials and administration consider many factors when setting the School District's fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

State revenues received by Michigan school districts are approved annually in a State Aid Act. This Act, approved by the State Legislature, provides a foundation amount (amount per student) of \$7,204 for the 2007-08 school year. This represents an increase of \$119.

Approximately seventy-six percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Each year the district is forced to borrow money against projected State Aid to meet payroll needs during the months of August and September. The borrowing increased to \$1,400,000 over the past three years and for the school year 2007-08.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Hancock Public Schools.

HANCOCK PUBLIC SCHOOLS
STATEMENT OF NET ASSETS

June 30, 2008

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 17,328
Investments	70,071
Taxes receivable	170,055
Accounts receivable	22,416
Due from other governmental units	1,034,750
Due from trust & agency funds	11,999
TOTAL CURRENT ASSETS	<u>1,326,619</u>
NON-CURRENT ASSETS:	
Restricted cash	210,790
Capital assets	17,586,302
Less: Accumulated depreciation	<u>(7,220,010)</u>
Net Capital Assets	<u>10,366,292</u>
TOTAL NON-CURRENT ASSETS	<u>10,577,082</u>
TOTAL ASSETS	<u>\$ 11,903,701</u>
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	\$ 97,606
Accrued expenses	253,416
Accrued interest	57,795
Deferred revenue	912
State Aid repayment short-term	43,728
Short-term note payable	1,875,000
Short-term capital lease	16,001
Bonds payable within one year	695,000
TOTAL CURRENT LIABILITIES	<u>3,039,458</u>
NON-CURRENT LIABILITIES	
Bonds payable, due in more than one year	7,852,308
Installment purchase agreement, due in more than one year	379,255
Compensated absences	185,766
School bond loan fund payable	4,186,800
TOTAL NON-CURRENT LIABILITIES	<u>12,604,129</u>
TOTAL LIABILITIES	<u>15,643,587</u>
NET ASSETS	
Invested in capital assets, net of related debt	(2,804,866)
Restricted for debt service	182,242
Restricted for QZAB loan	115,926
Unreserved	<u>(1,233,188)</u>
TOTAL NET ASSETS	<u>(3,739,886)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 11,903,701</u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

				Governmental Activities
			Program Revenues	Net (Expense)
			Operating	Revenue and
			Charges for	Changes in Net
	Expenses	Services	Grants and Contributions	Assets
<u>FUNCTIONS/PROGRAMS</u>				
Government Activities:				
Instruction and instructional support	\$ 4,957,808	\$ -	\$ 615,879	\$ (4,341,929)
Support services	2,278,066	-	-	(2,278,066)
Community services	55,374	-	-	(55,374)
School service	348,354	141,639	196,070	(10,645)
Athletics	163,127	38,353	-	(124,774)
Interest on long-term debt	550,990	-	-	(550,990)
Other debt service	5,128	-	-	(5,128)
Total Governmental Activities	\$ 8,358,847	\$ 179,992	\$ 811,949	(7,366,906)
General Revenues:				
Taxes				
Property taxes, levied for general operations				730,273
Property taxes, levied for debt service				1,310,078
Other taxes				9,940
State school aid - unrestricted				5,113,112
Interest and investment earnings				45,974
Other				235,064
Transfers				(96,485)
Total general revenues and transfers				7,347,956
Change in Net Assets				(18,950)
Net Assets - Beginning				(3,720,936)
Net Assets - Ending				\$ (3,739,886)

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2008

	General	Debt Service Fund	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 4,520	\$ -	\$ 12,808	\$ 17,328
Investments	70,071	-	-	70,071
Taxes receivable	82,677	87,378	-	170,055
Accounts receivable	19,704	-	2,712	22,416
Due from trust and agency funds	11,999	-	-	11,999
Due from other governmental units	1,032,115	-	2,635	1,034,750
Due from other funds	18,034	-	-	18,034
Restricted cash	115,926	94,864	-	210,790
TOTAL ASSETS	\$ 1,355,046	\$ 182,242	\$ 18,155	\$ 1,555,443
LIABILITIES:				
Accounts payable	\$ 97,485	\$ -	\$ 121	\$ 97,606
Accrued expenses	253,416	-	-	253,416
Due to other funds	-	-	18,034	18,034
Short-term notes payable	1,875,000	-	-	1,875,000
Deferred revenue	912	-	-	912
TOTAL LIABILITIES	2,226,813	-	18,155	2,244,968
FUND BALANCES:				
Reserved	115,926	182,242	-	298,168
Unreserved	(987,693)	-	-	(987,693)
TOTAL FUND BALANCES	(871,767)	182,242	-	(689,525)
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,355,046	\$ 182,242	\$ 18,155	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,366,292
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	(13,358,858)
Accrued interest is not included as a liability in governmental funds	(57,795)
Net assets of governmental activities	<u>\$ (3,739,886)</u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	General Fund	Debt Service Fund	Other Non-major Governmental Funds	Totals
REVENUES:				
Local sources	\$ 1,006,550	\$ 1,352,931	\$ 180,131	\$ 2,539,612
State sources	5,486,859	-	14,572	5,501,431
Federal sources	149,151	-	181,498	330,649
Total revenues	6,642,560	1,352,931	376,201	8,371,692
EXPENDITURES:				
Instruction	4,594,810	-	-	4,594,810
Supporting services	2,237,730	-	-	2,237,730
Community services	55,374	-	-	55,374
School service	-	-	345,854	345,854
Athletics	-	-	156,170	156,170
Debt service	-	1,260,245	-	1,260,245
Total expenditures	6,887,914	1,260,245	502,024	8,650,183
Excess (deficiency) of revenue over expenditures	(245,354)	92,686	(125,823)	(278,491)
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	(125,823)	-	125,823	-
Incoming transfers - other schools	82,625	-	-	82,625
Proceeds from sale of capital assets	14,378	-	-	14,378
Outgoing transfers - other schools	(179,110)	-	-	(179,110)
Lease payments	(24,000)	-	-	(24,000)
Total other financing sources (uses)	(231,930)	-	125,823	106,107
NET CHANGE IN FUND BALANCE	(477,284)	92,686	-	(384,598)
FUND BALANCES - BEGINNING OF YEAR	(394,483)	89,556	-	
FUND BALANCES - END OF YEAR	\$ (871,767)	\$ 182,242	\$ -	

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not record depreciation and report capital outlays as expenditures; in the statement of activities, these costs are capitalized and allocated over their estimated useful lives as depreciation	(408,539)
Accrued expenses are recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	(9,066)
Capital lease activities increases long-term debt in the statement of activities	22,941
Repayment of excess school aid to the State	50,312
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	(710,000)
Change in net assets of governmental activities	<u>\$ (18,950)</u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

	<u>Fiduciary Fund</u>
ASSETS	
Cash	\$ 54,100
Investments	73,843
TOTAL ASSETS	<u>\$ 127,943</u>
LIABILITIES	
Due to student groups	\$ 42,089
Due to general fund	11,999
Scholarship funds	73,855
TOTAL LIABILITIES	<u>\$ 127,943</u>

The accompanying notes to the financial statements are an integral part of this statement.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Hancock Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant District accounting policies are described below.

REPORTING ENTITY

Hancock Public Schools (the "District") is governed by the Hancock Public Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United State of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

Excluded from the reporting entity:

Hancock Public Schools Foundation, Inc.

This potential component unit has a separately elected board and provides assistance with development, implementation, and/or maintenance of educational programs which significantly contribute to the education and personal growth of Hancock School students. The foundation is excluded from the reporting entity because the school does not have the ability to exercise influence or control over the operations, approve budgets, or provide funding.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis and is reported on a full accrual, economic resource basis, which recognizes all long-term receivables as well as long-term debt obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted for debt service; and unreserved net assets.

The District first utilizes restricted resources to finance qualifying activities.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenue must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The District does allocate indirect costs.

The government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government unit.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Other non-major funds:

Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service and Athletic Activities.

Fiduciary Funds – The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities).

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Scholarship Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals or private organizations designated for scholarship purposes. The Fund distributes the assets according to scholarship requirements.

Fiduciary funds are not included in the government-wide statements.

Accrual Method - The government-wide financials statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION

Modified Accrual Method - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue - The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

2007-08 Foundation		\$	7,204.00
Less Local Support:			
Non-Homestead Tax Value	44,297,853		
Multiplied by mills	0.018		
Total Local Support	797,361		
Divided by General Education K-12 membership	808.14		
Calculated Local Support			(986.66)
		\$	<u>6,217.34</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposits - Cash and equivalents include amounts in demand deposits and certificates of deposit.

Property Taxes - Property taxes levied by the District are collected by Franklin Township, Hancock Township, Quincy Township and the City of Hancock and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund - Non-homestead	17.8974
Debt service fund - Homestead and non-homestead	11.33

A Local Development Financing Authority is located in the District. The Authority has established a SmartZone that captures 9 mills of the 18 mills from the (Non-homestead) taxable value of certain properties.

Receivables and Payables - Activity between funds are reported as "due to/from other funds." All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory - All funds utilize the purchase method of recording inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Capital Assets - Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Benefits - The liabilities for accrued benefits reported in the district-wide statements in the amount of \$185,766, consisted of sick leave and vacation balances.

Teachers with a minimum of 10 years of service in the District, and all non-affiliated staff are entitled to receive 50% of their accumulated sick leave up to a maximum of 160 days upon termination at the current daily rate for substitute teachers (not to exceed \$60). Teachers eligible to retire under the provisions of MPSERS are entitled to receive 60% of their accumulated sick leave upon retirement. Unionized support staff who retire under the provisions of MPSERS, are entitled to receive 50% of their accumulated sick time up to the maximum 180 days at the rate of \$30 per day. Total accrued sick leave as of June 30, 2008 is \$162,524.

Teachers do not accumulate vacation time and the unionized support staff are required to take their vacation during the contract year or else it is forfeited. Non-affiliated staff are required to use all vacation time accrued in a school calendar year, during that school calendar year. Days accrued in a school calendar year and not used will be lost. Total accrued vacation as of June 30, 2008 is \$23,242.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reclassification - Certain items in the prior year financial statements have been reclassified to conform with the current year presentation.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The School District follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
5. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the School's actual and budgeted expenditures have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2008

NOTE C - DEPOSITS AND INVESTMENTS

At year-end, the District's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the District is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 17,328	\$ 0	\$ 17,328
Restricted cash	210,790	54,100	264,890
Total cash and cash equivalents	228,118	54,100	282,218
Investments	70,071	0	70,071
Restricted investments	0	73,843	73,843
Total investments	70,071	73,843	143,914
Total deposits and investments	\$ 298,189	\$ 127,943	\$ 426,132

As of June 30, 2008 the District had the following investments:

Investment Type	Fair Value	Rating
MILAF - Cash Management	\$ 70,071	AAA
Federal Government Obligations	6,343	AAA
US Government Agencies	25,098	AAA
Bank Certificates over one year	30,000	AAA
Indices	12,402	AAA
TOTAL	\$ 143,914	

Investment and Deposit Risk

Interest Rate Risk – In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements. The District's investments held at year end do not have maturity dates.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investments pools as identified in the list of authorized investments below. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment are identified above for investments held at year end.

Custodial Credit Risk - Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2008, \$113,101 of the District's bank balance of \$378,020 was exposed to custodial credit risk because it was uninsured and collateralized.

Custodial Credit Risk - Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investment listed above, there is no custodial credit risk, as these investment are uncategorized as to credit risk.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2008

NOTE C - DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk – State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments below. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above and are external investment pools.

Michigan law authorizes the District to deposit and invest in:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bill or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- Certificates of deposits issued by the State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

NOTE D - FIXED ASSETS

Fixed Asset activity of the School District's governmental activities was as follows:

	06/30/07	Additions	Deletions	06/30/08
Land	\$ 171,938	\$ 0	\$ 0	\$ 171,938
Building and additions	14,106,620	0	0	14,106,620
Improvements other than building	549,994	0	0	549,994
Equipment and furniture	2,291,568	27,822	0	2,319,390
Vehicles	43,233	0	0	43,233
School buses	395,127	0	0	395,127
	<u>17,558,480</u>	<u>\$ 27,822</u>	<u>\$ 0</u>	<u>17,586,302</u>
Accumulated depreciation:				
Building and additions	4,707,521	\$ 276,144	\$ 0	4,983,665
Improvements other than building	225,622	27,500	0	253,122
Equipment and furniture	1,647,212	94,285	0	1,741,497
Vehicles	43,233	0	0	43,233
School buses	160,061	38,432	0	198,493
	<u>6,783,649</u>	<u>\$ 436,361</u>	<u>\$ 0</u>	<u>7,220,010</u>
Net capital assets	<u>\$ 10,774,831</u>			<u>\$ 10,366,292</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2008

NOTE D - FIXED ASSETS (Continued)

Depreciation expense was charged to activities of the School District as follows:

Governmental activities		
Athletic Fund	\$	6,957
School Food Service Fund		2,500
General Fund:		
Instruction		386,568
Operations		1,904
Transportation		38,432
Total governmental activities	\$	<u>436,361</u>

NOTE E - RECEIVABLES

Receivables from governmental units at year end that are expected to be collected within one year consist of the following:

	General Fund	Food Service	Total
State	\$ 1,002,424	\$ 2,635	\$ 1,005,059
Local	24,702	0	24,702
Federal	4,988	0	4,988
	<u>\$ 1,032,114</u>	<u>\$ 2,635</u>	<u>\$ 1,034,749</u>

NOTE F - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. The amounts of inter-fund receivables and payables as of June 30, 2008 are as follows:

Fund	Inter-fund Receivable	Fund	Inter-fund Payable
General	\$ 18,034	Food Service	\$ 13,244
Food Service	0	Athletic	4,790
Total	<u>\$ 18,034</u>	Total	<u>\$ 18,034</u>

Fund	Transfer In	Fund	Transfer Out
Food Service	\$ 8,006	General	\$ 125,823
Athletic	117,817	Athletic	0
Total	<u>\$ 125,823</u>	Total	<u>\$ 125,823</u>

NOTE G - PAYABLES

Accounts payable and accrued liabilities as of June 30, 2008, for the District's individual major funds and non-major funds in the aggregate, are as follows:

	General	Debt	Non-Major Funds	Total
Fund Financial Statements:				
Accounts payable	\$ 97,485	\$ 0	\$ 121	\$ 97,606
Salaries payable	18,493	0	0	18,493
Accrued expenses	234,923	0	0	234,923
	<u>350,901</u>	<u>0</u>	<u>121</u>	<u>351,022</u>
District-wide Financial Statements:				
Accrued interest on long-term debt	0	1,204,396	0	1,204,396
Total accounts payable and accrued liabilities	<u>\$ 350,901</u>	<u>\$ 1,204,396</u>	<u>\$ 121</u>	<u>\$ 1,555,418</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2008

NOTE H - SHORT-TERM NOTE PAYABLE

On August 18, 2007, the School District obtained a one year operating loan from the Michigan Municipal Bond Authority in the amount of \$1,600,000 with an interest rate of 3.68%. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures. Interest is due semi-annually and principal is due at maturity on August 20, 2008.

In April 2008, the School District obtained an operating loan from the Superior National Bank in the amount of \$275,000 with an interest rate of 3%. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures. Interest and principal is due at maturity on August 20, 2008.

NOTE I - LONG-TERM DEBT

2002 Advance Refunding

On February 22, 2002, the District issued \$4,575,000 of general obligation unlimited tax bonds to advance refund \$4,420,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds were used to pay certain costs of issuance relating to the refunding of the 1991 Refunding Bonds dated November 7, 1991 and to establish an "Escrow Fund." The Escrow Fund was held by an escrow agent to pay the principle and interest, and call premiums due on the refunded bonds.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 2.40% to 5.00% per annum. Interest payments started on November 1, 2002, and are payable semi-annually on May 1, and November 1, as indicated. The bonds are to be both term and serial.

The Bonds, or \$5,000 portions thereof, maturing on or after May 1, 2013 shall be subject to redemption prior to maturity, at the option of the Issuer in such order as the Issuer may determine and by lot within any maturity, on any interest payment date occurring on or after May 1, 2012, at par and accrued interest to the date fixed for redemption.

Fiscal Year	November 1	May 1		Total
	Interest	Interest	Principal	
2008-2009	\$ 55,209	\$ 55,209	\$ 350,000	\$ 460,418
2009-2010	48,384	48,384	345,000	441,768
2010-2011	39,759	39,759	340,000	419,518
2011-2012	32,704	32,704	330,000	395,408
2012-2013	25,691	25,691	315,000	366,382
2013-2016	36,014	36,014	830,000	902,028
TOTAL	<u>\$ 237,761</u>	<u>\$ 237,761</u>	<u>\$ 2,510,000</u>	<u>\$ 2,985,522</u>

2004 Advance Refunding

On November 30, 2004 the District issued \$6,720,000 of general obligation unlimited tax refunding bonds to advance refund \$6,635,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds will be used to provide for the payment of the principal of, interest on and redemption premium on the 1996 Building and Site Bonds. The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principal and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on May 1, 2006.

The bond issue matures as indicated below with interest at varying rates of 2.5% to 4.65% per annum. Interest payments started on May 1, 2005, and are payable semi-annually on May 1, and November 1 as indicated. The bonds are to be both term and serial.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2008

NOTE I - LONG-TERM DEBT (Continued)

Optional Redemption: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2015, are by subject to redemption at the option of the School District in such order as the School District may determine and by lot within any maturity, on any date occurring on or after May 1, 2014, at par plus accrued interest to the date fixed for redemption.

Fiscal Year	November 1 Interest	May 1		Total
		Interest	Principal	
2008-2009	\$ 118,177	\$ 118,178	\$ 345,000	\$ 581,355
2009-2010	113,002	113,003	350,000	576,005
2010-2011	107,752	107,753	360,000	575,505
2011-2012	101,452	101,453	355,000	557,905
2012-2013	95,240	95,240	350,000	540,480
2013-2018	377,275	377,275	1,690,000	2,444,550
2018-2023	208,803	208,804	1,610,000	2,027,607
2023-2026	42,509	42,509	925,000	1,010,018
	<u>\$ 1,164,210</u>	<u>\$ 1,164,215</u>	<u>\$ 5,985,000</u>	<u>\$ 8,313,425</u>

School Bond Loan Fund

In prior years, the School District has borrowed funds from the Michigan School Bond Loan Fund for the purpose of making principal and interest payments on the above bond issues. In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can loan the school district funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. At June 30, 2008, the balance due to the School Bond Loan Fund, including accrued interest totaling \$1,146,601, was \$4,186,800.

The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the School District's 1991 bond issue. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds. The interest rate associated with loans from the School Bond Loan Fund is established periodically by the State Administrative Board. The rate at June 30, 2008 was 4.25%.

QZAB INSTALLMENT PURCHASE AGREEMENT

On December 28, 2005, the School District issued \$379,255 of Qualified Zone Academy Bonds (QZAB) a installment purchase agreement (IPA) to finance the purchase of four school buses, photocopier, printer and scanner, and computers, software, furniture, printers and related items.

The IPA matures as indicated below and bears an interest rate of 0.00% per annum. The Agreement is not subject to redemption prior to maturity. The School District is required to set-aside installments beginning with the fiscal year 2006-07 and continuing until such time as the set-aside installments, together with interest accrued on such set-aside installments equals \$379,255 on the sixth anniversary of issuance. At fiscal year end the District had set aside \$115,926.

Fiscal Year	Principal
2010-11	\$ 5,000
2011-12	374,255
	<u>\$ 379,255</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2008

NOTE I - LONG-TERM DEBT (Continued)

Durant Bond

As part of the Durant settlement non plaintiff school districts entitled to receive amounts greater than \$75,000 were offered a bonding option. The School District participated in the bonding option and on November 24, 1998 issued \$88,587 of school improvement bonds for the purpose of upgrading educational technology systems, acquiring new equipment for the elementary school, updating the technology infrastructure, constructing a storage facility, and purchasing a school bus.

The bond issue matures as indicated below with interest not to exceed 8% per annum. Interest payments began on May 15, 1999 and are payable annually thereafter on May 15 as indicated. The annual payments will be appropriated by the State of Michigan and will be the only revenue source for making the annual debt service payment on the bonds. The District is under no obligation to make the annual payment in any year the legislature fails to appropriate the proper amount of funds.

The bond is not subject to redemption prior to maturity and the School District will not issue any other bonds or obligations for the purpose of refunding this bond. Even though the State of Michigan will be appropriating funds to pay the principal and interest, the bond is the obligation of the School District, not the State.

As part of the State of Michigan Executive Budget Recommendation for fiscal year 2007, the bonds were "refunded." The debt service payment schedules for the districts that chose to bond have changed. However, the refunding did not change the total payments for any of the borrowers.

Fiscal Year	May 15 Interest	May 15 Principal	Total
2008-2009	\$ 1,291	\$ 4,930	\$ 6,221
2009-2010	1,056	5,165	6,221
2010-2011	11,190	30,607	41,797
2011-2012	553	5,668	6,221
2012-2013	283	5,938	6,221
TOTAL	<u>\$ 14,373</u>	<u>\$ 52,308</u>	<u>\$ 66,681</u>

Capital Lease Agreements

On January 3, 2007, the District entered into a capital lease agreement with Grant Capital Management, Inc. in the amount of \$46,336 for retrofit lighting project for the high school gym and middle school. This lease has an annual percentage rate of 8% and fixed payments will be made annually which will include interest. The lease will expire March 3, 2009, at which time the District will legally own the project. As of June 30, 2008 the District made \$30,335 in payments. The following is a schedule of the remaining lease payment:

Fiscal Year	Interest	Principal	Total
2008-2009	<u>\$ 499</u>	<u>\$ 16,001</u>	<u>\$ 16,500</u>

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2008

NOTE I - LONG-TERM DEBT (Continued)

State Aid Repayment

In March of 2005, the District received information that the Captured Assessed Valuation (CAV) for the district was overstated resulting in excess school aid of \$267,182 to the district.

The Michigan Department of Education sought to recoup these funds, except for the districts which promptly document that the recoupment would cause the school district to "experience significant hardship".

The District received approval for the payments to be spread over the next five years through reductions in the state aid payment in May of each year. Remaining payment at June 30, 2008 is \$43,728.

The following is a summary of the changes in the general long-term debt for the year ended June 30, 2008:

	Balance			Balance	Current
	June 30, 2007	Increase	Decrease	June 30, 2008	Portion
2002 Refunding Bond	\$ 2,870,000	\$ 0	\$ 360,000	\$ 2,510,000	\$ 350,000
2004 Refunding Bond	6,335,000	0	350,000	5,985,000	345,000
School Bond Loan	3,040,199	0	0	3,040,199	0
QZAB IPA	379,255	0	0	379,255	0
Durant Bond Loan	52,308	0	0	52,308	0
Installment Loan	1,176	0	1,176	0	0
Capital Lease	37,766	0	21,765	16,001	16,001
State Aid Repayment	94,039	0	50,311	43,728	43,728
	<u>12,809,743</u>	<u>0</u>	<u>783,252</u>	<u>12,026,491</u>	<u>\$ 754,729</u>
Accrued Interest	1,199,582	0	52,981	1,146,601	
Accrued Benefits	181,515	4,251	0	185,766	
TOTAL	<u>\$ 14,190,840</u>	<u>\$ 4,251</u>	<u>\$ 836,233</u>	<u>\$ 13,358,858</u>	

As of June 30, 2007, the aggregate maturities of long-term debt for the next 10 years and there after are as follows:

Fiscal Year	Interest	Principal	Total
2008-2009	\$ 348,563	\$ 759,659	\$ 1,108,222
2009-2010	323,829	700,165	1,023,994
2010-2011	306,213	735,607	1,041,820
2011-2012	268,866	1,064,923	1,333,789
2012-2013	242,145	670,938	913,083
2013-2018	826,578	2,520,000	3,346,578
2018-2023	417,607	1,610,000	2,027,607
2023-2026	1,254,570	3,965,199	5,219,769
TOTAL	<u>\$ 3,988,371</u>	<u>\$ 12,026,491</u>	<u>\$ 16,014,862</u>

NOTE J - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description

The District contributes to the Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, PO Box 30171, Lansing, Michigan 48909, by calling (517) 322-5103 or online at the State of Michigan's web-site: <http://www.michigan.gov/orsschools>.

Funding Policy

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The District was required by the state statute to contribute 17.74% of covered compensation through September 30, 2007 and 16.72% of covered compensation to the Plan for the remainder of the year. The contribution requirements of plan members and the District are established Michigan State statute and may be amended only by action of the State Legislature. The total amount contributed to MPERS for the years ended June 30, 2008, 2007, and 2006, were \$619,078, \$672,934, and \$670,955 respectively, equal to the required contributions for each year.

Other Post Employee Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

- Retirees not yet eligible for Medicare coverage pay an annual amount equal to Medicare Part B premiums.
- Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2008

NOTE K - RECONCILIATION OF MDE GRANT REPORTS TO FEDERAL REVENUES

The amounts reported as current payments on MDE grant reports prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 17 as follows:

Total current payments per MDE grant reports	\$ 312,356
Less prior year accounts receivables	(7,881)
Deferred revenue - CSR	(912)
Plus accounts receivable	4,988
Plus USDA Commodities	22,098
Total Federal Financial Assistance	<u>\$ 330,649</u>

The School District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2008 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

NOTE L - ECONOMIC DEPENDENCY

The District received approximately 76% of its General Fund revenue from the Michigan Department of Education Membership Allowance. Due to the significance of this revenue source to the District, the District is considered to be economically dependent.

NOTE M - CONTINGENT LIABILITIES

Risk Pool

Hancock Public Schools is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. Hancock Public Schools joined together with other school districts currently operating a common risk management and insurance program. Hancock Public Schools pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

Hancock Public Schools continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2007, which can be obtained through the School District

NOTE N - RESERVED FUND BALANCE

The Debt Service Fund has a reserved fund balance for the retirement of debt.

HANCOCK PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS - JUNE 30, 2008

NOTE O - DEFICIT FUND BALANCE

The financial statements show a fund deficit at June 30, 2008 in the General Fund of \$871,767.

The District's plans to eliminate the deficit over the next two years with reducing expenditures. The reduction of these expenditures was addressed in the budget developed in June of 2008. The areas included eliminating and consolidating staff positions, cost effective purchases of supplies and materials, and retirement of staff members.

The District is aware that the deficit elimination plan must be strictly adhered to for the 2008-2009 school year. If the plan is not followed stringently, more cost-reduction measures will be taken. Such measures may include the elimination and/or reduction of an administrative staff position, counselor, librarian, and all para-professional positions

NOTE P - SUBSEQUENT EVENT

Michigan Municipal Bond Authority: On August 20, 2008, the School District entered into a note with the Michigan Municipal Bond Authority. The principal amount and the interest rate on the Note shall not exceed \$1,950,000 and 2.1126% per annum, respectively. The note matures on August 20, 2009. The loan, which is pledged by future state aid payments, will provide funds for general operating expenditures.

2008 School Building and Site Bonds: On May 19, 2008 a new bond issue approved for the purpose of erecting, furnishing, and equipping an addition to the high school building, remodeling, furnishing and refurnishing, and re-equipping school buildings; acquiring and installing educational technology improvements; constructing a new bus garage; developing and improving playgrounds, athletic fields and facilities and sites; and to pay the costs of issuing the Bonds. The amount of the bond was \$8,820,000.

NOTE Q - PRIOR PERIOD ADJUSTMENT

The State School Aid Act requires verification of school districts taxable value. In the prior year discrepancies were found during the reconciliation of the district's non-homestead taxable values. The Taxable Value Form DS4410 did not agree with the taxable value documentation and the State Aid Status Report. The discrepancy was believed to be in connection with the City of Hancock SmartZone late reporting and the State Aid was increased by \$56,294.

Reviewing the DS4410 for 2006 Taxable Values, it was noted that changes were made to Franklin Township's values for the Renaissance Zone and the City of Hancock SmartZone causing an overstatement of \$56,294 in State Aid revenue for June 30, 2007.

Accordingly, adjustments were made to decrease State Aid and due from other governmental units as of June 30, 2007 in the amount of \$56,294 as prior period adjustments.

REQUIRED SUPPLEMENTAL FINANCIAL INFORMATION

HANCOCK PUBLIC SCHOOLS
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES:				
Local sources	\$ 1,097,946	\$ 1,085,403	\$ 1,006,550	\$ (78,853)
State sources	5,767,447	5,485,148	5,486,859	1,711
Federal sources	136,549	143,485	149,151	5,666
TOTAL REVENUE	7,001,942	6,714,036	6,642,560	(71,476)
EXPENDITURES:				
Instruction	4,566,079	4,632,346	4,594,810	37,536
Supporting services	2,273,686	2,280,503	2,293,104	(12,601)
TOTAL EXPENDITURES	6,839,765	6,912,849	6,887,914	24,935
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	162,177	(198,813)	(245,354)	(46,541)
OTHER FINANCING SOURCES (USES)				
Incoming transfers - other schools	106,000	100,972	82,625	(18,347)
Sale of fixed assets	20,530	14,500	14,378	(122)
Loan proceeds	-	-	-	-
Lease payments	(24,000)	(24,000)	(24,000)	-
Operating transfers out	(107,914)	(117,254)	(125,823)	(8,569)
Other outgoing transfers	(146,000)	(179,110)	(179,110)	-
Total other financing sources (uses)	(151,384)	(204,892)	(231,930)	(27,038)
NET CHANGE IN FUND BALANCE	\$ 10,793	\$ (403,705)	(477,284)	\$ (73,579)
FUND BALANCE - BEGINNING OF YEAR			(394,483)	
FUND BALANCE - END OF YEAR			\$ (871,767)	

OTHER SUPPLEMENTAL FINANCIAL INFORMATION

HANCOCK PUBLIC SCHOOLS
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>2007</u>
REVENUES:				
Local sources:				
Taxes:				
Current taxes	\$ 789,592	\$ 730,273	\$ (59,319)	\$ 684,574
Penalties & interest on delinquent taxes	5,000	5,738	738	2,586
Total taxes	794,592	736,011	(58,581)	687,160
Other local sources:				
Investment revenue	27,000	21,114	(5,886)	31,160
Tuition	17,000	10,297	(6,703)	7,058
Rentals	40,000	18,680	(21,320)	32,514
Contributions	42,669	42,669	-	43,798
Day Care/Latch Key fees	54,000	53,181	(819)	49,315
Miscellaneous	110,142	124,598	14,456	87,554
Total other local sources	290,811	270,539	20,272	251,399
Total local sources	1,085,403	1,006,550	(78,853)	938,559
State sources:				
Unrestricted grant - State Aid	5,063,844	5,062,800	(1,044)	5,319,729
Restricted grants:				
Durant proceeds	8,859	8,859	-	8,859
Special Education	222,752	223,439	(687)	230,856
School Readiness	37,400	37,400	-	36,300
Middle School Math	-	-	-	9,622
At-risk	150,247	150,247	-	168,565
Other state revenue	2,046	4,114	2,068	3,741
Total restricted grants	421,304	424,059	2,755	457,943
Total state sources	5,485,148	5,486,859	1,711	5,777,672
Federal sources:				
Title I	89,988	89,988	-	120,681
Title V	794	176	618	794
Title II	48,703	49,549	(846)	50,317
CIMS User Support & Training	4,000	4,000	-	-
Comprehensive School Reform	-	5,438	(5,438)	135,978
Total federal sources	143,485	149,151	5,666	307,770
TOTAL REVENUES	6,714,036	6,642,560	(71,476)	7,024,001

HANCOCK PUBLIC SCHOOLS
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE (Continued)
Year Ended June 30, 2008

EXPENDITURES:	Budget	Actual	Variance	2007
Instruction:				
Basic program:				
Elementary School	1,619,884	1,603,912	15,972	1,610,773
Middle School	972,564	960,497	12,067	1,092,797
High School	1,290,627	1,282,325	8,302	1,215,082
Total basic program	3,883,075	3,846,734	36,341	3,918,652
Added needs:				
Special education - Elementary School	456,475	456,938	(463)	695,576
School Readiness	50,777	50,455	322	50,894
Compensatory education	89,988	90,008	(20)	121,653
At-Risk	152,031	150,675	1,356	168,592
Total added needs	749,271	748,076	1,195	1,036,715
Total instruction	4,632,346	4,594,810	37,536	4,955,367
Supporting services:				
Pupil:				
Guidance	123,119	121,682	1,437	138,936
Health	4,211	4,210	1	28,064
Total pupil	127,330	125,892	1,438	167,000
Instructional staff:				
Improvement of instruction	2,135	2,135	-	2,520
Library	129,116	127,351	1,765	126,935
Total instructional staff	131,251	129,486	1,765	129,455
General administration:				
Board of education	38,169	41,281	(3,112)	38,647
Executive administration	192,139	191,119	1,020	189,276
Total general administration	230,308	232,400	(2,092)	227,923
School administration:				
Office of principal - Elementary School	140,204	139,351	853	140,077
Office of principal - Middle School	150,266	153,341	(3,075)	150,734
Office of principal - High School	163,413	162,686	727	159,211
Total school administration	453,883	455,378	(1,495)	450,022
Business-fiscal services	140,224	139,759	465	131,147
Operation & maintenance	786,761	804,287	(17,526)	816,406
Pupil transportation	276,954	272,398	4,556	529,037
Other technical support	78,120	78,130	(10)	94,585

HANCOCK PUBLIC SCHOOLS
GENERAL FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE (Continued)
Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>2007</u>
Community services	<u>55,672</u>	<u>55,374</u>	<u>298</u>	<u>57,807</u>
Total supporting services	<u>2,280,503</u>	<u>2,293,104</u>	<u>(12,601)</u>	<u>2,603,382</u>
TOTAL EXPENDITURES	<u>6,912,849</u>	<u>6,887,914</u>	<u>24,935</u>	<u>7,558,749</u>
EXCESS OF REVENUES OVER EXPENDITURES	(198,813)	(245,354)	(46,541)	(534,748)
OTHER FINANCING SOURCES (USES):				
Incoming transfers - other schools	100,972	82,625	(18,347)	286,518
Operating transfer out	(117,254)	(125,823)	(8,569)	(135,530)
Sale of fixed assets	14,500	14,378	(122)	20,530
Other outgoing transfers	(179,110)	(179,110)	-	(176,634)
Lease payments	<u>(24,000)</u>	<u>(24,000)</u>	<u>-</u>	<u>(11,125)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(204,892)</u>	<u>(231,930)</u>	<u>(27,038)</u>	<u>(16,241)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (403,705)</u>	(477,284)	<u>\$ (73,579)</u>	(550,989)
FUND BALANCE, BEGINNING OF YEAR		<u>(394,483)</u>		<u>156,506</u>
FUND BALANCE, END OF YEAR		<u>\$ (871,767)</u>		<u>\$ (394,483)</u>

HANCOCK PUBLIC SCHOOLS
DEBT SERVICE FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>2007</u>
REVENUES:				
Current taxes	\$ 1,310,183	\$ 1,310,078	\$ (105)	\$ 1,236,939
Interest income	31,255	34,661	3,406	31,433
Penalties & interest on delinquent taxes	6,500	8,192	1,692	4,071
TOTAL REVENUES	<u>1,347,938</u>	<u>1,352,931</u>	<u>4,993</u>	<u>1,272,443</u>
EXPENDITURES:				
Interest on bonds	368,153	368,153	-	392,967
Redemption of bond principle	710,000	888,023	(178,023)	935,000
Agent Fees	475	491	(16)	3,694
Other expense	3,576	3,578	(2)	2,444
TOTAL EXPENDITURES	<u>1,082,204</u>	<u>1,260,245</u>	<u>(178,041)</u>	<u>1,334,105</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 265,734</u>	92,686	<u>\$ (173,048)</u>	(61,662)
FUND BALANCE, BEGINNING OF YEAR		<u>89,556</u>		<u>151,218</u>
FUND BALANCE, END OF YEAR		<u>\$ 182,242</u>		<u>\$ 89,556</u>

HANCOCK PUBLIC SCHOOLS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
June 30, 2008

			Totals	
	School	Athletic	Memorandum Only	
ASSETS AND OTHER DEBITS:	Service		2008	2007
Cash	\$ 8,018	\$ 4,790	\$ 12,808	\$ 13,770
Receivables	2,712	-	2,712	2,387
Due from other governmental units	2,635	-	2,635	2,439
TOTAL ASSETS	\$ 13,365	\$ 4,790	\$ 18,155	\$ 18,596
LIABILITIES:				
Accounts payable	\$ 121	-	\$ 121	-
Accrued expenses	-	-	-	-
Due to other funds	13,244	4,790	18,034	18,596
TOTAL LIABILITIES	13,365	4,790	18,155	18,596
FUND EQUITY:				
Fund balance - unreserved	-	-	-	-
TOTAL LIABILITIES AND FUND EQUITY	\$ 13,365	\$ 4,790	\$ 18,155	\$ 18,596

HANCOCK PUBLIC SCHOOLS
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2008

			Totals	
	School Service	Athletic	Memorandum Only 2008	2007
REVENUES:				
Local sources	\$ 141,778	\$ 38,353	\$ 180,131	\$ 182,438
State sources	14,572	-	14,572	13,672
Federal sources	181,498	-	181,498	179,962
TOTAL REVENUES	337,848	38,353	376,201	376,072
EXPENDITURES:				
Salaries	106,346	46,717	153,063	189,240
Employee benefits	52,454	11,426	63,880	96,401
Purchase services	308	70,408	70,716	32,566
Supplies, materials, and other	186,746	27,619	214,365	185,997
TOTAL EXPENDITURES	345,854	156,170	502,024	504,204
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8,006)	(117,817)	(125,823)	(128,132)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	8,006	117,817	125,823	135,530
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-	-	-	7,398
FUND BALANCE, BEGINNING OF YEAR	-	-	-	(7,398)
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ -	\$ -

HANCOCK PUBLIC SCHOOLS
SCHOOL SERVICE FUND
SCHEDULES OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	Budget	Actual	Variance	2007
REVENUES:				
Local sources:				
Student lunches	\$ 114,750	\$ 116,072	\$ 1,322	\$ 121,636
A-La-Carte	300	299	(1)	261
Adult lunches	5,100	5,087	(13)	4,658
Other charges for services	20,215	20,181	(34)	45,726
Earnings on investments	140	139	(1)	199
Total local sources	140,505	141,778	1,273	172,480
State sources	14,575	14,572	(3)	13,672
Federal sources:				
School lunch program	159,500	159,400	(100)	162,983
USDA entitlements	5,000	22,098	17,098	16,816
USDA bonus entitlements	995	-	(995)	163
Total federal sources	165,495	181,498	16,003	179,962
TOTAL REVENUES	320,575	337,848	17,273	366,114
EXPENDITURES:				
Salaries	105,268	106,346	(1,078)	113,571
Employee benefits	52,455	52,454	1	77,384
Purchase services	308	308	-	819
Supplies, materials, and other	163,969	186,746	(22,777)	161,713
TOTAL EXPENDITURES	322,000	345,854	(23,854)	353,487
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,425)	(8,006)	41,127	12,627
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	8,006	(8,006)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 1,425	-	\$ (33,121)	12,627
FUND BALANCE, BEGINNING OF YEAR		-		(12,627)
FUND BALANCE, END OF YEAR		\$ -		\$ -

HANCOCK PUBLIC SCHOOLS
ATHLETIC FUND
SCHEDULES OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Year Ended June 30, 2008

	<u>2008</u>	<u>2007</u>
REVENUES:		
Local sources:		
Gate receipts	\$ 35,739	\$ 29,683
Other	<u>2,614</u>	<u>5,562</u>
TOTAL REVENUES	<u>38,353</u>	<u>35,245</u>
EXPENDITURES:		
Salaries	46,717	75,669
Employee benefits	11,426	19,017
Purchase services	70,408	31,747
Supplies, materials, and other	<u>27,619</u>	<u>24,284</u>
TOTAL EXPENDITURES	<u>156,170</u>	<u>150,717</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(117,817)	(115,472)
OTHER FINANCING SOURCES (USES)		
Operating transfers in	<u>117,817</u>	<u>110,243</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	-	(5,229)
FUND BALANCE, BEGINNING OF YEAR	<u>-</u>	<u>5,229</u>
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>

HANCOCK PUBLIC SCHOOLS
TRUST AND AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2008

	Balance July 1, 2007	Receipts	Disbursements	Balance June 30, 2008
ASSETS:				
Cash	\$ 48,924	\$ 135,326	\$ 132,226	\$ 52,024
LIABILITIES:				
Due to Student Groups:				
Elementary School	\$ 11,389	\$ 69,183	\$ 68,726	\$ 11,846
Middle School	3,948	5,603	4,155	5,396
High School	33,587	60,540	59,345	34,782
TOTAL LIABILITIES	\$ 48,924	\$ 135,326	\$ 132,226	\$ 52,024

HANCOCK PUBLIC SCHOOLS
SCHOLARSHIP FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2008

	<u>Balance</u> <u>July 1, 2007</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance</u> <u>June 30, 2008</u>
ASSETS:				
Cash and investments	\$ 70,831	\$ 3,727	\$ 2,470	\$ 72,088
LIABILITIES:				
Scholarship funds				
Mary C. Orella	\$ 70,831	\$ 3,727	\$ 2,470	\$ 72,088



Bruce A. Rukkila, CPA, PC

310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.brukerukkila.com

Full Service Accounting Firm
for the Western Upper Peninsula

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Hancock Public Schools
Hancock, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock Public Schools as of and for the year then ended June 30, 2008 which collectively comprise the District's basic financial statements and have issued our report thereon dated November 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements is more than inconsequential and will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2008-1 through 2008-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Hancock Public Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2008-1 and 2008-3.

We noted certain matters that we reported to management of Hancock Public Schools in a separate letter dated November 6, 2008.

Hancock Public Schools' response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Hancock Public Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the District Board, others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

November 6, 2008

HANCOCK PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2008

2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition, Cause and Effect: As is the case with many entities, Hancock Public Schools has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls. As a result of this condition, Hancock Public Schools lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: Hancock Public Schools has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District to out source this task to its external auditors. The finance department has the knowledge to understand GAAP financial statements and will carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation.

2008-2 – Capital Assets Records Maintained by the Auditor

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition, Cause and Effect: The District has relied on its external auditor to maintain and update capital assets. Management has made the decision that it is in their best interest to have their external auditor maintain capital assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

View of Responsible Officials: The District finds it advantageous to apply the auditor's capital asset reports for GASB 34 reporting. Based on the technical depreciation software that is utilized by the auditor, the District has decided to review the capital asset reports on an annual basis and retain them.

2008-3 – Adjustments Proposed by the Auditor

Criteria: The District is responsible for the reconciliation of all general ledger accounts for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: The auditor identified journal entries to be posted to the District's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Effect: We are pleased to assist in adjusting the District's general ledger, but are also required to communicate our part in completing the District's accounting records. A number of these journal entries are related to property taxes, intergovernmental activities, accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements.

View of Responsible Officials: The District will ensure all general ledger accounts are reconciled on a timely basis with review and approval by the Board Treasurer.



Bruce A. Rukkila, CPA, PC

310 Sheldon Avenue • Houghton MI 49931
(906) 482-6601 • Fax: (906) 482-9046
e-mail: help@brucerukkila.com
www.bruцерukkila.com



November 6, 2008

To the Board of Education
Hancock Public Schools
Hancock, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hancock Public Schools for the year ended June 30, 2008, and have issued our report thereon dated October 23, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated July 29, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal controls of the Hancock Public Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hancock Public Schools' compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Hancock Public Schools are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the Hancock Public Schools during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is current judgments. Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 23, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Hancock Public Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Hancock Public Schools' Board and is not intended to be and should not be used for any other purpose.

It has been a pleasure to provide audit services to the Hancock Public Schools. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

Very truly yours,

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

In planning and performing our audit of the financial statements of Hancock Public Schools, as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Hancock Public Schools' internal controls over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

2008-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and reporting government-wide financial statements, including related footnotes.

Condition: As is the case with many small entities, Hancock Public Schools has historically relied on its independent external auditors to assist in the preparation of the financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to out source the preparation of its annual financial statements to the auditors rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: Hancock Public Schools has evaluated the benefits of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the District to out source this task to its external auditors, and to carefully review the draft financials statements and notes prior to approving them and accepting responsibility for their content and presentation.

2008-2 – Capital Assets Records Maintained by the Auditor

Criteria: Purchases, additions, disposals, and sale of assets must have prior approval from the appropriate officials. In addition, the financial statements must accurately report all capital assets and accumulated depreciation along with capital expenditures and depreciation expense.

Condition, Cause and Effect: The District has relied on its external auditor to maintain and update capital assets. Management has made the decision that it is in their best interest to have their external auditor maintain capital assets and compute depreciation rather than incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

View of Responsible Officials: A copy of the capital asset information will be provided to the District, which will allow the District to assume this responsibility in the future.

2008-3 – Adjustments Proposed by the Auditor

Criteria: The District is responsible for the reconciliation of all general ledger accounts for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Auditor identified journal entries to be posted to the District's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles.

Effect: We are pleased to assist in adjusting the District's general ledger, but are also required to communicate our part in completing the District's accounting records. A number of these journal entries are related to property taxes, intergovernmental activities, accounts payable, accounts receivable, and items required for the full-accrual presentation of the government-wide statements.

View of Responsible Officials: The District will ensure all general ledger accounts are reconciled on a timely basis with review and approval by the Board Treasurer.

ADDITIONAL COMMENTS AND RECOMMENDATIONS

During our audit we became aware of opportunities for strengthening internal controls and operating efficiencies. The following items summarize our comments and suggestions regarding those matters.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any addition study of these matters, or to assist you in implementing the recommendations.

Public Act 621 - Budget Over Expenditures

Public Act 621 of 1978, as amended, prohibits expenditures in excess of budgeted appropriations. Instances of violations of these provisions are readily ascertainable from the financial statements and the accompanying information. There were no material overages in the individual budgeted funds.

Deficit Fund Balance

The financial statements show a fund deficit at June 30, 2007 in the General Fund of \$871,767.

We recommend that the board continue to monitor the general fund balance and take the steps to eliminate the deficit. In accordance with the State School Aid Act of 1979, the school must formulate and file a deficit elimination plan with the Michigan Department of Education. The District will submit a plan prior to December 15, 2008. The school district is required to submit to the Michigan Department of Education, for approval, a budget for the current school fiscal year and a plan to eliminate the district's deficit no later than the end of the second school fiscal year after the deficit was incurred.

Mileage Expense Reimbursement

The District pays certain employees monthly travel allowance. Unless amounts received by an employee for reimbursement of business expenses are paid under an accountable plan, they are to be included in the employee's gross income and reported on their W-2. An accountable plan reimbursement or expense allowance arrangement must:

- require the employee to substantiate the expenses within a reasonable period;
- require the employee to return amounts in excess of the substantiated expenses within a reasonable period; and
- require a business connection between the amount reimbursed and the performance of services as an employee.